

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

# Fredonia-Moccasin Unified School District No. 6

Year Ended June 30, 2006



**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

November 13, 2007

Governing Board  
Fredonia-Moccasin Unified School District No. 6  
P.O. Box 247  
Fredonia, AZ 86022-0247

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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# INTRODUCTION

Fredonia-Moccasin Unified School District No. 6 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$3.4 million it received in fiscal year (FY) 2006 to provide this education.

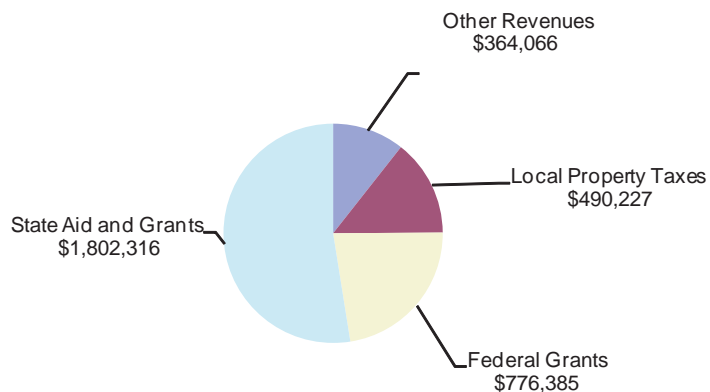
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2006

County: Coconino  
Number of Schools: 2

Number of Students: 344  
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Fredonia-Moccasin Unified School District No. 6 Single Audit Reporting Package for the Fiscal Year Ended June 30, 2006.*

# The District must strengthen controls over competitive purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that the District receives the best possible value for the public monies it spends and that its expenditures are

The District did not always follow competitive purchasing requirements and, therefore, could not ensure it received the best value for public monies it spent.

appropriate, approved, and adequately supported. However, the District did not always follow such procedures. Specifically, the District did not always obtain competitive sealed bids or proposals for purchases that exceeded the competitive purchasing threshold. When invitations for bids (IFBs) were

issued, the District did not always issue adequate notice of IFBs or include all required information in the IFB. In addition, the District did not always obtain oral and written price quotations for purchases requiring them or prepare purchase orders prior to ordering goods and services.

Further, the District did not maintain formal, written policies for credit card usage and did not always retain receipts for credit card purchases. Also, the District's accounts payable function was not properly controlled. As a result, the District did not always retain invoices/receipts, paid an invoice twice, paid an invoice before the goods or services were received, did not always retain documentation of when goods or services were received, and paid one invoice for a FY 2005 expenditure in FY 2006.

## Recommendations

To strengthen controls over competitive purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines for purchases below the competitive sealed bid threshold, the District should:

- Analyze the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable thresholds for competitive sealed bids or proposals and oral or written price quotations.
- Issue IFBs or requests for proposals for purchases of construction, materials, or services that exceed \$33,689.
- Retain all documents necessary to demonstrate compliance with the School District Procurement Rules, including a list of prospective bidders and the advertisement in a local newspaper if there were four or fewer vendors on the prospective bidders list. The IFB should state that all bids will be subject to public inspection and include a district contact person.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Prepare and approve purchase orders before goods and services are ordered.
- Establish and maintain formal, written policies for credit card usage in accordance with the USFR.
- Retain documentation to support all credit card transactions, including a clear indication of the employee making the purchase and the specific school purpose served for the expenditure. Credit card receipts and other supporting documentation should be agreed to the applicable billing statement before payment is made to the credit card company.
- Improve controls over accounts payable functions by retaining vendor invoices and other documentation, including purchase orders, receipts, and receiving reports. Cancel documents to prevent duplicate payment by stamping invoices and supporting documents paid.
- Prepare an Advice of Encumbrance from the listing of liabilities for levy funds for goods or services received on or before June 30 that are unpaid at June 30. During the 60-day encumbrance period following June 30, maintain separate accounting records of each fund simultaneously for the prior and current fiscal year and record revenues and expenditures of the prior and current fiscal year in the appropriate set of records.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

## The District's controls over payroll processing should be strengthened

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately and that adequate records are maintained to support payroll expenditures. However, the District did not have adequate controls over payroll processing. Specifically, the District's personnel files did not always include employment contracts, rates of pay, and number of pay periods over which employees elected to have their wages paid. Additionally, when contracts were included, they were not always signed. The District also lacked adequate controls over vacation, sick leave, and compensatory time. As a result, the District was unable to support accrued leave

The District did not ensure that all employees' total amounts paid over the year agreed to the contracted pay rates.



The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

balances for each employee. Further, the District did not ensure that the actual amounts paid to employees throughout the year agreed to employees' contracted pay rates.

## Recommendations

To strengthen controls over payroll processing, the District should retain all required documents to support employee eligibility, qualifications, salary, and deduction amounts. Also, the District should retain authorized leave forms and maintain leave summaries or other similar forms, to record vacation, sick leave, and compensatory time earned and used for each employee. These records should be updated at the end of each pay period. A second employee should verify that leave balances are calculated correctly and that payroll registers are properly supported by authorized notifications of employment, terminations, pay rate changes, withholding and voluntary deductions authorization forms, and work attendance records.

## The District's controls over cash receipts and bank accounts should be improved

The District receives cash from various sources, including student activities, auxiliary operations, and food service sales, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District did not prepare cash collection reports to reconcile sales to cash collected for student activities and auxiliary operations monies received. The

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

District also did not always deposit cash receipts in a timely manner and did not remit monies in the Food Service Fund clearing bank account to the County Treasurer at least monthly. Additionally, the District's Maintenance and Operation (M&O) Fund revolving bank account balance was over \$10,000 more than allowed by statute as of June 30, 2006. Further, documentation for M&O Fund revolving bank account disbursements was not always retained, and disbursements were not always an appropriate use of the account. Finally, the District had more than \$14,000 of its bank balance that was uninsured and uncollateralized as of June 30, 2006.

## Recommendations

To improve controls over cash receipts and bank accounts, the District should:

- Prepare and retain cash collection reports for student activities and auxiliary operations monies received in order to document sales and reconcile cash collections. If it is not practical to issue receipts, sell tickets, or count items before and after the sale, such as for bake sales, cash collection reports should be prepared to document cash collected.
- Deposit all cash receipts daily, if significant, or at least weekly into the appropriate bank accounts or directly with the County Treasurer.
- Remit monies deposited in the Food Service Fund clearing bank account to the County Treasurer at least monthly.
- Limit the M&O Fund revolving bank account to the maximum allowed amount.
- Ensure the M&O Fund revolving bank account is used only for activities that require immediate cash outlays, such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements.
- Retain documentation such as check requests, vendor invoices, and other documentation to support expenditures from the M&O Fund revolving bank account.
- Ensure that all district monies are secure by obtaining a collateral agreement with the bank for all amounts on deposit in excess of Federal Depository Insurance.

A sample student activities cash collection report is on USFR page X-H-21.

USFR pages VI-C-3 and 4 describe M&O Fund revolving bank account procedures, including maximum allowable amounts.

## The District should maintain accurate financial records

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete, and that transactions are properly recorded. However, the District did not fully accomplish this objective. For example, the District did not record all transactions in accordance with the USFR Chart of Accounts and made unauthorized transfers between funds. Also, the District's actual and

The District did not always record transactions properly in its accounting records or ensure that all transfers between funds were authorized.

budgeted expenditures reported on the annual financial report (AFR) did not agree with the District's accounting records or most recently revised expenditure budget. Additionally, the District did not reconcile its records with the County School Superintendent's (CSS) records on a monthly basis, and its reconciliation to the County Treasurer's cash balances was not complete. Finally, the District failed to retain documentation that a public meeting was held to adopt the December revision of its expenditure budget.

## Recommendations

To ensure the accuracy of its accounting records, the District should:

- Classify all transactions in accordance with the USFR Chart of Accounts.
- Ensure that all transfers of monies between funds are authorized by A.R.S. and the USFR.
- Update accounting records for all revenues and expenditures before preparing the AFR and have a second employee verify that the amounts reported on the AFR agree with the District's most recently adopted budget and accounting records before submitting it to ADE.
- Reconcile its records of cash balances by fund monthly to the CSS' and County Treasurer's records. Investigate all reconciling items and make any necessary corrections.
- Retain documentation of the Governing Board's notice of the public meeting to adopt the December expenditure budget revision, if a revision is required.

## The District should accurately record and report its student attendance

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the districts receive the appropriate amount of state aid and local property taxes. However, student files did not always include entry forms,

The District may not have received the appropriate amount of funding since the District did not correctly record and report membership and absences.

and some entry forms did not include a date. Additionally, the District did not always properly calculate partial-day absences, and sign-in and sign-out sheets were not retained to support student attendance. Also, the District did not always retain Official Notice of Pupil Withdrawal forms as they

USFR §III provides guidance for classifying financial transactions.

USFR pages VI-B-8 through 10 provide guidance for reconciling the District's record of cash balances to those of the CSS and County Treasurer.

were forwarded to the student's new school with the student's permanent file. Further, the District incorrectly uploaded enrollment and attendance data for both the Joint Technological Education District (JTED) classes offered at its schools and its own classes under the District's identification number.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Prepare and retain properly completed entry and withdrawal forms and have a second employee verify that the entry and withdrawal dates recorded on the forms agree with the dates in the District's computerized attendance system.
- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than  $\frac{3}{4}$  of the day.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
  - Attendance of at least  $\frac{3}{4}$  of the instructional time scheduled for the day should be counted as a full day of attendance.
  - Attendance for at least  $\frac{1}{2}$ , but less than  $\frac{3}{4}$ , of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Retain documentation, including sign-in and sign-out sheets, to support membership and absences reported to ADE.
- Retain permanent student files, including student identification information, academic records, attendance records, and AIMS test results. Maintain the official notice of pupil withdrawal for 3 years after the fiscal year of withdrawal.
- For students enrolled in a program provided by a JTED, the District should report the actual enrollment and attendance data for the District's classes that the student was enrolled in under the District's identification number and separately report JTED enrollment under the JTED's identification number.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.